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# China, Peoples Republic of

## Food Processing Ingredients Sector

### Food Processing

### 2004

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**Report Highlights:**

The food processing industry is developing rapidly in China. Strong economic growth combined with higher disposable incomes means increased demand for high quality processed food by Chinese consumers. This report briefly discusses opportunities for US exporters of high-quality processed food products and ingredients.

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## Section I: Market Summary

Over the past half century, China has transformed into one of the world's fastest growing economies. With a population of 1.3 billion, China is the most populated country in the world. China is also the world's third largest country by area, covering 9.6 million square kilometers.

The People's Republic of China was founded in 1949. In 1979 China began its 'open-door' policy, which encouraged foreign investment and trade. In the past 25 years, China's average GDP growth rate exceeded 8% and reached 9.1% in 2003. Together with rapid economic growth, the standard of living has improved as well. The urban per capita disposable income has been on the rise, with a growth rate of 9% in 2003, and for rural areas, the average growth rate of per capita net income was 4.3% that same year.

China is the 10<sup>th</sup> largest trading nation in the world. Its share in world trade is now around 2%, while its share in the incremental increase of global trade has been close to 20% in recent years. A market driven industry combined with China's membership in the World Trade Organization may provide for more mergers and consolidation in order to attain greater profits and efficiencies in the next few years.

Rapid economic growth combined with higher disposable income means stronger demand for high quality processed food by Chinese consumers. To meet this demand, China's food processing industry also continues to grow at double-digit rates in excess of 10%. Experts predict that the Chinese food processing industry will surely have a bright future because currently only about one-quarter of China's food production is processed compared to about 80 percent in more developed countries. Consumption of processed food products in China is extremely low but is increasing at a rapid rate.

During the past year there have been a number of deaths related to unsafe or "fake" food products including imitation infant formula and tainted liquor. These cases have lowered many Chinese consumers' confidence in the safety of the food supply in China. As a result, consumers are more willing to pay for well-known local and imported brands. Imported products and those branded products produced by foreign joint-ventures tend to have a better reputation for higher quality and food safety.

Many foreign companies are taking advantage of the increased demand for high quality processed food products and will benefit by the reforms being implemented by the WTO accession. Currently, the food industry sector is unable to advance further until all of its sub-sectors reach a more sophisticated level of manufacturing and produce products of higher quality. Only then will it be able to enter the worldwide market as a key player.

This industry consists of the food-processing sector, the food-manufacturing sector and the beverage sector. The food-processing sector includes rice milling, flour milling, oil refining, sugar refining, slaughtering, salt processing, feed processing, and aquatic product processing. The food-manufacturing sector is composed of pastries and confections, dairy products, canned foods, fermented products, and condiments. The beverage sector involves the making of alcoholic beverages (i.e. distilled spirits, beer and wine), soft drinks and tea.

Figure 1: China's Food Industry Structure, 2001

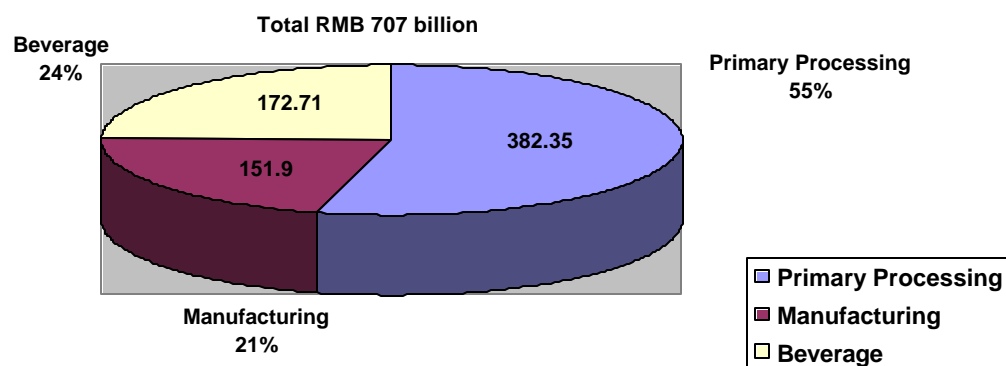


Figure 2: China's Food Industry Structure, 2002

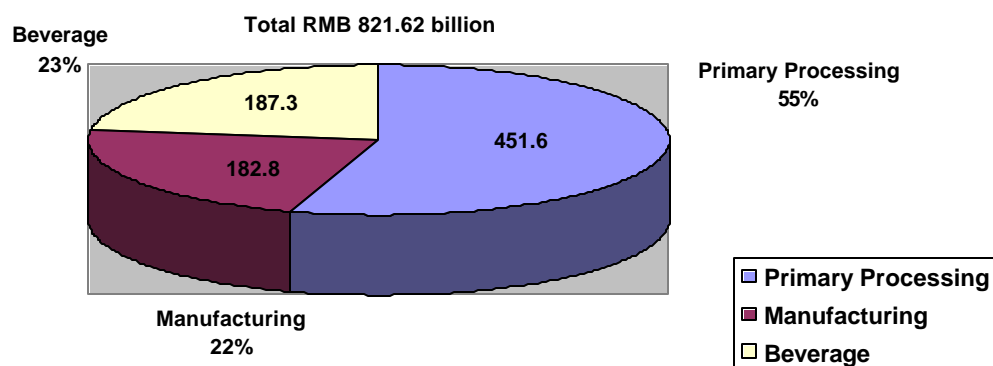


Table 1: The Food Industry in China	2001	2002	% Change
The Food Processing Sector			
No. of Enterprises	10,381	10,413	0.30%
Revenue of RMB (in billions)	382.35	451.6	18.10%
The Food-Manufacturing Sector			
No. of Enterprises	4,563	4,615	1.10%
Revenue in RMB (in billions)	151.9	182.8	20.30%
The Beverage Sector			
No. of Enterprises	3,307	3,287	-0.60%
Revenue in RMB (in billions)	172.71	187.3	8.40%
Total No. of Enterprises	18,251	18,315	0.35%
Total Revenue in RMB (in billions)	706.97	821.62	16.20%
Total No. of Employees (in millions)	2.35	2.28	-2.90%

Source: China Statistical Yearbook, 2002, 2003

According to the table above, the number of food-processing and food-manufacturing enterprises increased from 2001 – 2002, whereas the enterprises in the beverage sector slightly decreased. Although revenues increased in all three areas, within the beverage sector, the vanishing enterprises allowed for a much lower revenue increase compared to the other two sectors. Compared to the industry's total revenue growth the beverage sector also lagged behind. The food-manufacturing sector leads the food industry in both number of enterprises and revenue growth.

Table 2: Distribution of Food Industry by Sub-Sectors	Total No. of Enterprises 2001 18,251	Total No. of Enterprises 2002 18,315	Total Revenues 2001 706.97 (in billions)	Total Revenues 2002 821.62 (in billions)
Food Processing	56.90	56.90%	54.10%	55%
Food Manufacturing	25.00	25.20%	21.50%	22.20%
Beverage	18.10%	17.90%	24.40%	22.80%

Source: China Statistical Yearbook, 2002, 2003

## Retail Sales

In 2001 the total retail sales volume of food, beverage and catering businesses reached 542.57 billion RMB. This accounted for 14.4% of the total retail sales volume of all consumer goods. In 2002, it increased to 629.96 billion RMB, raising it to 15.4% of the total retail sales of all consumer goods.

Table 3: Retail Sales of Food, Beverage & Catering (in billions RMB)	2001	2002	% Change
Food	91.74	104.22	13.60%
Beverage	13.94	16.51	18.40%
Catering	436.89	509.23	16.60%
Total	542.57	629.96	16.10%

Source: China Statistical Yearbook, 2002, 2003

The total retail sales of food, beverage and catering, at 16.1% between 2001 and 2002 is almost double that of the annual growth rate of retail sales of all consumer goods during the same period which was 8.8%. The beverage sector had an even higher growth rate of 18.4%. The total retail sales of food, beverage, and catering business each accounted for 76.7% of the food industry's revenue, respectively in 2001 and 2002.

Table 4 shows that the estimated total amount of money Chinese families spent on food in 2001 was RMB 1,629 billion (U.S. \$197.1 billion). In 2002, this number increased by 11.9% to RMB 1,823 billion (U.S. \$220.6 billion). Combined with the food consumption in hotels, restaurants and various organizations one can see that China's food market is enormous.

Table 4: Food Expenditure of Chinese Families, in RMB	Estimated Total Population in 2001/2002 (in millions)	Average Food Expenditure in 2001/2002 per capita	Total Food Expenditure in 2001/2002 (in billions)
Urban Families	480.64/502.12	2,014.02/2,271.84	968/1,141
Rural Families	765.63/782.41	830.72/872.39	661/683
Total	1,246.27/1,284.53	2,844.74/3,144.23	1,629/1,824

Source: China Statistical Yearbook, 2002, 2003

Table 5: Food Expenditure & Disposable Income in China, in RMB	Disposable Income 2001/2002	Food Expenditure 2001/2002	Increase in Disposable Income/Food Expenditure
Urban	6,859.6/7,702.8	2,014.02/2,271.84	12.3%/12.8%
Rural	2,366.4/2,475.6	830.72/872.39	4.6%/5.0%

Source: China Statistical Yearbook, 2002, 2003

Urban areas along the coast continue to lead the rest of the country in per capita spending, both overall and for food expenditures in particular. In 2002, the national per capita income was RMB 6030 (U.S. \$730), whereas income levels in Shanghai, Shenzhen and Guangzhou all exceeded RMB 10,000 (U.S. \$1200). However, urban income levels vary widely, and many young, middle-class Chinese earn \$7,000 to \$10,000 a year. Chinese have traditionally spent a large percentage of their income on food – and the cosmopolitan aspirations of young professionals predispose them to spend a growing amount on foreign products.

Last year, young professionals spent about 40% of their disposable income on food. A growing percentage of that amount was spent on imported products, such as meat, dairy products, fresh fruit and confectionary items. Many young professionals spend a sizable portion of their income dining out, increasingly at western or chain restaurants that use imported products such as U.S. beef, poultry, potato products or wine. For example, Pizza Hut, which uses American potato products and cheese, usually has long lines of eager customers and has become a popular birthday party destination for children in affluent cities in China.

Between 2001 and 2002, the disposable income of urban families rose 12.3% and 4.6% for rural families. The urban families spent 12.8% more on food expenditures, while the rural families spent 5% more. With continuing urbanization in China, more residents in the rural areas will migrate to urban areas allowing for more money to be spent on food. Also, with the improvement of living standards of Chinese people, the consumption of processed food and beverages will continue to grow.

## Section II. China's Meat Industry

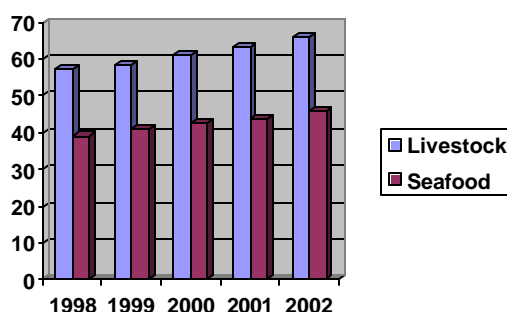
In the past five years, China has been one of the world's largest producers of agricultural products such as cereals, meat, cotton lint, in-shell peanuts, rapeseed and fruit. The production of the above-mentioned products continues to rise, while many basic cereals are being displaced by more profitable fruits and vegetables. The output of meat grew from 57.2 MMT in 1998 to 65.9 MMT in 2002, a growth rate of 15.1%. However, according to industry

insiders, ready-to-eat meat products are less than 10% of the total production. With the increasingly fast paced life of the Chinese people, the demand for processed, ready-to-eat meat products will increase. In the 1990s, Hormel from the USA set up two JV processing factories in Beijing and Shanghai in order to meet the growing demands of Chinese consumers for processed meat products. Big domestic processors such as Shuanghui Group in Henan, whose daily meat processing capacity reaches 1,500 MT, and Yurun Food Group in the Jiangsu Province are expanding their meat processing capabilities in order to increase their market share.

Table 6: China's Output of Livestock/Seafood Products (MMT)	Livestock	Seafood
1998	57.24	39.07
1999	58.21	41.22
2000	61.25	42.79
2001	63.34	43.81
2002	65.87	45.65

Source: China Statistical Yearbook, 2002, 2003

**Figure 3: China's Output of Livestock/Seafood Products**



With the improvement of China's living standards, meat products play an increasingly important role in the life of Chinese consumers. The per capita annual meat purchases in China increased from 23.87 KG in 1998 to 32.62 KG in 2002, a growth rate of 36.6%, while the level in the Guangdong province grew from 36.22 KG to 54.12 KG during the same period, a growth rate of 49.4%.

The statistics in Table 7 show that the per capita meat purchases in Guangdong Province has been much higher than the national average. The reason for this is that the Guangdong people have a higher disposable income than people in most other parts of China. More disposable income also allows the Guangdong people to satisfy their desire to increase purchases of more seafood products. The national average consumption of seafood in 2002 was 35.6 KG, while in Guangdong Province it was 80.3 KG.

In Southern China, in Guangdong and Guangxi Provinces, pork consumption still ranks first among meat consumption, while in Northern China, due to lower disposable income levels, consumption habits and religious concerns, people tend to eat more beef and mutton products.

Table 7: Guangdong Urban Household Per Capita Annual Meat Purchases vs. China's National Average (KG)	Pork	Beef & Mutton	Poultry	Total
Guangdong Urban Household 1998	20.05	2.2	13.97	36.22
China's Average Household 1998	15.88	3.34	4.65	23.87
Guangdong Urban Household 1999	20.2	2	15	37.2
China's Average Household 1999	16.91	3.09	4.29	24.29
Guangdong Urban Household 2000	19.56	2.08	15.91	37.55
China's Average Household 2000	16.73	3.33	5.44	25.5
Guangdong Urban Household 2001	19.4	2.1	15.6	37.1
China's Average Household 2001	15.95	3.17	5.3	24.42
Guangdong Urban Household 2002	28.8	3	17.64	49.44
China's Average Household 2002	20.28	3	9.24	32.52

Source: Guangdong Statistical Yearbook, China Statistical Yearbook, 2002, 2003

China is also the world's largest producer of cultured aquatic products. The total output of aquatic products increased from 39.1 MMT in 1998 to 45.6 MMT in 2002, a total increase of 16.6%, whereas production of cultured aquatic products grew from 21.8 MMT in 1998 to 29 MMT in 2002, a growth of 33%. China produces nearly two-thirds of the world's cultured aquatic products. The main products are farm raised carp, tilapia and shrimp.

Table 8: Output of China's Aquatic Products (MMT)	Seawater Cultured	Freshwater Cultured	Total Aquatic Products
1998	8.6	13.2	39.1
1999	9.7	14.2	41.2
2000	10.6	15.1	42.8
2001	11.3	15.9	43.8
2002	12.1	16.9	45.6

Source: China Statistical Yearbook, 2002, 2003 Total includes Sea/Fresh Water Catch.

### Section III. China's Cereal Industry

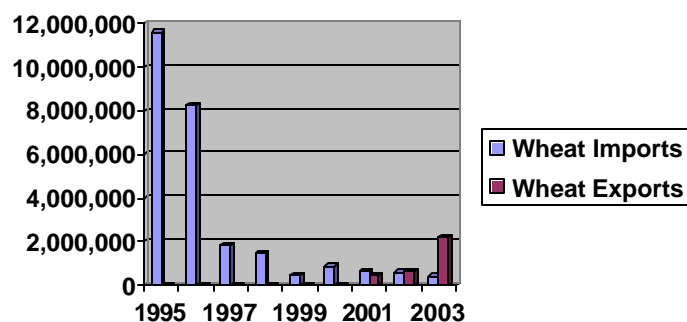
According to China Customs figures, in 2003 the entire Chinese market imported 424,180 MT of wheat, 29.84% less than the previous year. China also exported 2,237,480 MT of wheat, a 225.39% increase from 2002. China's net export of wheat was 1,813,300 MT. The United States, Canada and Australia are still the main players in the Chinese market. Cereal production has been falling in recent years due to poor weather conditions and more liberal production policies that favor more high-value crops such as fruits and vegetables. The Chinese government has already contracted for more than two million tons of high quality wheat imports through the end of this calendar year. The attached chart shows China's wheat import/export figures since 1995.



Table 9: China's Wheat Imports/Exports		
	Wheat Imports (MT)	Wheat Exports (MT)
1995	11,585,580	16,188
1996	8,245,961	0
1997	1,860,612	709
1998	1,489,403	6,020
1999	448,121	204
2000	880,000	2,500
2001	690,050	450,000
2002	604,570	687,620
2003	424,180	2,237,480

Source: Chinese Customs Statistics

**Figure 4: China's Wheat Imports/Exports**



There are 55 flourmills, which together have a daily processing capacity greater than 1000 MT, located in Guangdong province. However, the biggest 6 players in the region dominate almost half of the production. These big players not only provide their products to local consumers, but also export their flour to the surrounding area, mainly Hong Kong, Macao and Southeast Asia. The Hong Kong and Macao markets are the key import markets for high quality wheat flour from China, while the Southeast Asia countries consume lower end products.

The wheat processing capacity has already reached 480,000 MT per year in Guangdong province, but the actual products being processed only amounted to 250,000 MT last year. Hence, many mills are not operating at full capacity.

The Chinese government adjusted the export commodities' tax rebate rate last October. The tax refund rate for wheat flour exports was raised from 5% to 13%, while the rebate for wheat was lowered from 13% to 9%. The flourmills are very excited about the decision and said the new regulation will encourage their exports and increase their profit efficiency.

Wheat imports are still dominated by the market's biggest player – COFCO, which receives almost 90% of the yearly import quota. Most of the joint venture mills and privately owned mills only get several thousand tons of quotas each year. To get a better price from the exporter and eliminate the negative impact caused by high freight rates, those mills started to pool together their quotas to make joint purchases. Last year, eight flour mills worked together and brought in more than 100,000 MT of U.S. wheat. Recently, about 200 joint ventures and privately owned mills received 905,000 MT of import quotas from the State

Development and Reform Commission for 2004. With the approval of the next year's quota, we anticipate the mills will continue to make joint purchases in the future.

Most of the imported wheat will be used for blending with other varieties of local wheat for specific gluten and protein content. For example, higher quality bread flour will utilize imported hard wheat with a protein content of around 13% to 14.5%, while biscuit flour may utilize imported soft wheat flour with a protein content of around 7-9%. For instant noodles, imported wheat with proteins between 11.5% and 12.5% would be most appropriate. With increasing incomes and demand for higher quality food products, the usage of imported wheat will continue to grow.

The distribution system in developed areas is also undergoing changes. Sales of bakery products via supermarkets/chain bakery stores have increased, while the number of small artisanal bakeries has decreased. People living in cities tend to purchase bakery products with known brand names out of concern for food safety.

With the anticipated lower cereals production and smaller planted area, and increasing demand from consumers, we expect wheat imports to continue growing in the coming years.

## **Section IV. Fruit and Nuts**

### **Fruit and Vegetable Processing**

In 2003, the total sales revenue of the fruits and vegetable processing industry amounted to around US\$ 3.02 billion (RMB 25 billion), an increase of 30 percent over last year's sales.

Fresh fruits produced in China are mainly consumed fresh. Since technology for processing is fairly primitive in China, only about 5 percent of the fruit is processed into canned or preserved products.

Imported fresh fruit are seldom used to make canned fruit. They are usually sold at a much higher price and consumed fresh by Chinese consumers. Some of the imported fresh fruit is also used as food ingredients in cooking, such as cherries on cakes.

Meanwhile, imported dried fruits such as prunes and raisins are usually purchased by Chinese consumers as snack foods. Chinese restaurants would also incorporate dried fruits as an ingredient to prepare either cakes or Chinese dishes. Dried fruits and nuts are commonly imported in bulk and then packaged and labeled locally.

### **Dried Nuts Processing**

More than 90 percent of the tree nuts in China are imported from foreign countries, usually in bulk, and then processed and packed by food processors. The most popular items are pistachios, almonds, Macadamia nuts, hazelnuts and pecan. Most of these products are processed and then packed into smaller bags to be distributed to the retailers.

Packaging plays a very critical role in the consumer's purchasing decision. Chinese consumers like to buy attractively designed packages. Many food processors realize the significance of this and strive to provide a more creative design on their products. The imported dried nuts are mainly consumed as snacks. Some of them are simply processed with salt while others may be preserved with more ingredients, such as sugar, honey and even spicy items. The California Almond Board has been very active in China and is responsible for a growing trend for some restaurants to use almonds as an ingredient in

preparing Chinese cuisine, or adding almond flakes into cake mixes to prepare birthday cakes.

### **Market Entry Advice to US Food Companies**

Among raw materials and food ingredients, imported food products account for an increasingly large percentage of ingredients for the food processing industry. Products with the most potential include tree nuts, dried fruits, livestock and livestock products, poultry products, seafood and cereals. As the urban population demands higher quality and more variety of products, ingredients that enhance nutrition and appearance of products will be in great demand.

More and more foreign companies are entering the food processing sector because it is expected to flourish as China's tariffs becoming lower. With much more advanced technology and stricter safety control, foreign companies enjoy a solid reputation for high quality products.

Depending on the respective products, foreign countries undertake different marketing strategies to promote a particular product which include menu promotions, in-store promotions, trade show participation and training seminars.

American companies are facing serious challenges from both domestic manufacturers and foreign-invested enterprises. Although the US currently enjoys a leading role in the imported food market, other competing countries are striving to create a strong presence. As for local processors, they are trying hard to upgrade their processing facilities with state-of-the-art imported equipment from outside China. Eventually, they will produce better quality food products and become more competitive, especially with their low labor cost advantage.

To become more competitive, US food producers and/or processors should try to improve the quality of their food products, adjust the tastes of their products to meet the preferences of Chinese consumers, design attractive packaging and also develop strong business relationships with their Chinese trade contacts.

After its accession to the WTO, China is obligated to lower its tariffs on imported products (see Table 1). The average tariffs on agricultural products will decrease anywhere from 22% to 17.5%, while American products will benefit from a decrease of 14.5%. Although the Chinese government is trying to follow the WTO requirements, there are still many areas that don't have specific laws guiding the proper implementation at the moment. In order to be successful, American producers and processors interested in entering this dynamic market should be prepared to learn how to better understand Chinese consumers, follow up with the regulations implemented by the Chinese government, and approach this market with realistic expectations by being patient with market development activities.

Table 10: Tariff Rates on Major Fruits, Vegetable and Dried Nuts					
Products	Tariff code	MFN Rate for 2001	MFN Rate for 2002	MFN Rate for 2003	MFN Rate for 2004
Potato	0701.1000	13	13	13	13
Tomato	0702.0000	13	13	13	13
Cauliflowers and Broccoli	0704.1000	13	11.2	11.2	10
Lettuce	0705.1100	15	12.4	12.4	10
Peas	0708.1000	13	13	13	13
Beans	0708.2000	13	13	13	13
Asparagus	0709.2000	13	13	13	13
Sweet corn	0710.4000	13	11.2	11.2	10
Coconuts	0801.1100	15	13.2	12.6	12
Cashew nuts	0801.3100	28	24	22	20
Almonds, In-shell	0802.1100	29	26.4	25.2	24
Almonds, shelled	0802.1200	26	18	14	10
Hazelnuts	0802.2100	29	27	26	25
Walnuts	0802.3100	29	27	26	25
Pistachios	0802.5000	30	20	15	10
Hawaiian nuts	0802.9049	29	26.4	25.2	24
Bananas	0803.0000	25	16	13	10
Dates	0804.1000	19	15	15	15
Figs	0804.2000	30	30	30	30
Pineapples	0804.3000	20	15.2	13.6	12
Avocados	0804.4000	25	25	25	25
Guavas	0804.5010	23	19	17	15
Mangoes	0804.5020	23	19	17	15
Oranges	0805.1000	35	22.6	16.8	11
Grapefruits	0805.4000	35	23.2	17.6	12
Lemons	0805.5000	38	22.6	16.8	11
Grapes	0806.1000	40	23.8	18.4	13
Watermelons	0807.1100	29	27	26	25
Cantaloupes	0807.1920	30	19.2	15.6	12
Papayas	0807.2000	29	27	26	25
Apples	0808.1000	30	18	14	10
Ya Pears	0808.2012	27	19.2	15.6	12
Apricots	0809.1000	29	27	26	25
Cherries	0809.2000	26	18	14	10
Peaches	0809.3000	26	18	14	10
Plums	0809.4000	35	22	16	10
Strawberries	0810.1000	30	25.6	24.2	22.7
Raspberries & Blackberries	0810.2000	29	27	26	25
Cranberries	0810.4000	30	30	30	30
Kiwifruit	0810.5000	37	30	26.7	23.3
Durians	0810.6000	28	24	22	20
Lychee	0810.9010	42	36	33	30
Logan	0810.9030	30	21	18	15
Carambola	0810.9060	30	24	22	20

\*Minimum rate applied to countries enjoying most favored nation (MFN) trading status with China. US are among those countries. The effective minimum rate is tariff rate plus VAT (Value Added Tax). The currently VAT rate for the majority of the products listed above is 13%.

Sources: PRC Import and Export Tariff Handbooks for 2001, 2002, 2003 and 2004

## Section V. Factors to Consider

### Chinese Consumers Are Increasingly Aware of Food Safety

Chinese consumers are attaching more and more importance to the safety and quality of their food. Generally speaking, Chinese consumers are predominantly price sensitive. However, for consumers in the more affluent urban areas, such as Beijing, Shanghai, Guangzhou and Shenzhen, safety and quality have become two determining factors when deciding on which products to buy. They are more willing to pay extra for quality and safety. Therefore, the central government is implementing the Fangxinshipin (safety guaranteed foods) policy, under which only foods from designated processing facilities are allowed for retail sales. Back in April 2003, China's Ministry of Agriculture released a list of drugs banned from use in animal feeds and later in September announced the Administrative Regulations on the Quality and Safety of Aquatic Products. This regulations launched a nationwide campaign to ensure the safety of feed for animal use in order to guarantee that meat and aquatic products are safe for human consumption.

### Imports of Major U.S. Agricultural Products into China

China had over 124,000 enterprises/companies involved in food trading in 2003, with total imports and exports valued at US\$ 85 billion, an increase of 37.1% over the previous year. Exports were US\$ 43.8 billion and imports were US\$ 41.3 billion, a growth of 34.6% and 39.9% respectively. China imported 20 MMT of soybean, mainly from the USA, Brazil, and Argentina, valued at US\$ 5.4 billion.

The top ten trading partners for China in 2003 were Japan, USA, EU, Hong Kong, ASEAN, Korea, Taiwan, Russia, Australia and Canada.

Major imported agricultural products from the USA into China include soybean, tree nuts, fresh fruit and meat and poultry offal.

Table 11: China's Top Imports of Consumer Foods, 2002	
Product	Value (\$ millions)
Poultry	426
Dairy (excluding cheese)	281
Fresh Fruit	276
Processed Fruit & Vegetables	260
Red Meat	200
Wine & Beer	76
Infant Foods	74
Snack Foods (excluding nuts)	70
Tree Nuts	67

Source: China Statistical Yearbook, 2002, 2003

China imported 99,886 MT of edible fruits and nuts from the USA in 2003, a growth of 15.5% from the previous year, and valued at US\$ 78.8 million, a growth of 57.1%. As China's second biggest trading partner, the USA is the largest supplier of meat and edible meat offal into China. In 2002, China imported 1,047,774 MT of meat and edible meat offal products from all over the world, among which 828,784 MT came from the USA. Guangdong Province in southern China plays an important role in the distribution of imported meat and edible meat offal products. About 70% of all meat imports enter China through Guangzhou and Shenzhen ports and are distributed throughout China. In the Northern port cities, Shanghai handles about 20-25% of the total imports.

U.S. beef and poultry products are currently banned from entering China. U.S. beef was banned in December 2003 due to the BSE case detected in Washington State and poultry products were banned in February due to the discovery of Asian Influenza in a few poultry flocks in the United States. Both situations are under control and discussions are currently under way to reopen the market to U.S. beef and poultry.

## **Section VI. Road Map for Market Entry**

Since imported food products comprise an increasing percentage of the food processing industry, it is important to have specialized marketing strategies to help ensure a place in the industry. Marketing strategies vary according to the degree of popularity and acceptance that a particular product enjoys locally. The stories of three product groups – almonds, potato products and dairy products – illustrate the challenges that imported products face in occupying a sizeable position in the food processing industry. For U.S. products that already have large sales consumption and focus on ingredient application and technical training for more specialized usage. For instance, many high-end joint venture or local bakery chains now use American ingredients in their specialized products such as cakes and cookies.

In the frozen potato products market, while the U.S. still enjoys 88% of the market share, increasing domestic competition and lower-cost imports from New Zealand and the EU have resulted in a 7% drop since 1999. The U.S. Potato Board has resolved to maintain market dominance and set quality standards emphasizing product profitability and specification in its marketing messages. U.S. Potato products can be found at most fast food restaurants and other quick serve retail food outlets.

While the U.S. trails Australian and New Zealand dairy imports in China, the U.S.A. Dairy Export Council (USADEC) has capitalized on its comparative advantage to fortify the U.S. position in China: they aggressively market a small selection of dairy products – whey, lactose and milk powder – to achieve market penetration in those product groups. For instance, to increase awareness of the versatility and cost benefit of using lactose in food processing, the USADEC conducts technical seminars and “one-on-one” consultation with large domestic food processing groups. Education and training regarding ingredient application has helped hasten the incorporation of American whey proteins, lactose and milk powder into the local food processing industry, thereby increasing the demand for imports of those ingredients from the U.S.

Generally speaking, ordinary Chinese consumers are very price sensitive. For both sellers and buyers, price is the number one concern when deciding whether or not to purchase something. The second factor is quality.

More than 90 percent of the tree nuts and dried fruits in the local market are imported raw from foreign countries, in bulk, and then are processed and packed in China. The most popular items include pistachios, almonds, Macadamia nuts, hazelnut, prunes, raisins and

pecans. Many of these nuts and dried fruits are packed either in transparent plastic bags or paper cartons for sale, usually in the supermarkets.

For the ready-to-cook products sold in the local supermarkets, most raw elements are of local origins. The more common elements are beef, pork, chicken, mutton, meatballs, fish balls, seafood and fresh vegetables. They are cleaned, cut to the preferred size, packed in a white Styrofoam plate and wrapped with a plastic transparent film for display in the refrigerated section of the supermarket. Due to the fast pace of urban life, many Chinese customers welcome these convenient and ready-to-cook products. The market for ready-to-cook products is promising.

Imported beef, pork, seafood and other imported seasoning ingredients are available in high-end restaurants such as those in five-star hotels and JV supermarkets such as Park N Shop and Carrefour. Western style cuisines and cooking are gaining popularity in big cities all over China. They create a budding market opportunity for foreign food products. After the USA announced the first BSE case late December 2003, US beef products have been banned from entering the Chinese market. However, before the BSE case in USA, U.S. beef products, especially beef offal, was very popular in the Chinese market and was facing strong competition from New Zealand and Canada. U.S. seafood has strong competition from Norway, Australia and Canada. Beef jerky and pork jerky are two popular snacks made from local elements. The two best selling seafood snacks are preserved squid and de-boned eels and are both are made with local products.

Thailand and Australia are the only two countries that have a significant share of the imported rice market in China. The two most popular packages are 5 kilograms per bag for sale in supermarkets and 25 kilogram bags offered in the wholesale markets.

Joint ventures such as Garden, AJC and Donghaitang produce most of the bakery products sold in the local supermarkets. They buy flour from domestic mills who buy wheat from the United States, Canada and Australia to blend with the local varieties.

Foreign fresh fruits are available all year round in China. The technology for processing fruits is fairly primitive in China. It is estimated that only 5 percent of the fresh fruits grown in China are processed into canned or preserved products. The other 95 percent is consumed raw and fresh. Canned fruits such as peaches, pineapples and cherries are mainly used for baking. Canned litchis and longan are exported. Preserved fruits are consumed mainly as snacks.

China manufactures a great variety of milk powder. Imported infant formula and milk powder used to be very popular among young parents who want to provide the best for their only child. With the development of the Chinese dairy industry and the establishment of joint ventured milk production in China, JV and local products have become the preferred choice of Chinese young parents because of their lower price and comparable quality. Worldwide brands such as Mead Johnson, Wyeth, Nestle, Dumex have joint ventures in China.

Various brands of chocolate are readily available in South China. They include original imports such as Ferrero Rocher from Italy and Lindt from Switzerland and also products made in China, such as Hersey in Shanghai, Nestle in Tianjin, M & M in Beijing, and Montresor in Zhangjiagang.



## Section VII. Best Products and Prospects

The following foreign food items and ingredients are sold and well received in the Chinese market: almonds, pistachios, prunes, raisins, oranges, table grapes, grapefruits, hazelnuts, Macadamia nuts, apples, cherries, beef, chicken parts, bovine and swine offal, bakery ingredients, French fries, sweet corn, juices and concentrates, lobsters, clams, salmon, infant formula milk powder and candies. These items are especially popular during festival seasons like the Chinese New Year, the Mid-Autumn Festival, and Christmas.

Developing health food, microwaveable food, instant food, infant food, food for primary and high school students, and low calorie, low fat, low saturated fatty acid, low salt, low cholesterol, high fiber and high calcium for older people are among China's food industry's priorities.

## Section VIII. Summary and Post Contact

The food industry in China is adjusting to market forces. It is getting ready for a higher level of development. Its immediate and urgent needs are finding the resources for upgrading the processing and manufacturing facilities and importing or building production equipment to meet consumers' demand for better quality food items and food safety concerns. Its expansion is contingent on finding new markets within and beyond its borders. The quality and pricing of the products will determine if they are able to compete domestically and internationally. Improvement of the production facilities and equipment will create demand for imported and better quality food ingredients and raw materials. They will also require better quality control.

Inquiries about this report can be directed to ATO Guangzhou, Shanghai and Beijing. The telephone numbers for the three posts are 011-8620-8667-7553, 001-8621-6279-8622 and 011-8610-8529-6418. The fax numbers are 011-8620-8666-0703, 011-8621-6279-8336 and 011-8610-8529-6692, respectively. Currently ATO/Guangzhou website [www.atoguangzhou.org](http://www.atoguangzhou.org) carries current information on the South China market. The three posts will incorporate a FAS nationwide website to provide overall information on the China market in the coming weeks.